

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

SECOND SET OF INFORMATION REQUESTS TO  
BAY STATE GAS COMPANY  
D.T.E. 01-81

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Pursuant to 220 C.M.R. 1.06(6)(c), The Department of Telecommunications and Energy ("Department") hereby submits to Bay State Gas Company ("Bay State" or "Company") the following Information Requests.

**INSTRUCTIONS**

The following instructions apply to this set of Information Requests and all subsequent Information Requests issued by the Department to the Bay State Gas Company in this proceeding.

1. "Bay State" or "Company" means Bay State Gas Company, its officers, directors, employees, consultants, and attorneys.
2. Each request should be answered in writing on a separate, three-hole punch page with a recitation of the request, a reference to the request number, the docket number of the case and the name of the person responsible for the answer.
3. Do not wait for all answers to be completed before supplying answers. Provide the answers as they are completed. Further, these requests shall be deemed continuing so as to require further supplemental responses if the or its witness receives or generates additional information within the scope of these requests between the time of the original response and the close of the record in this proceeding.
4. The term "provide complete and detailed documentation" means:  
  
Provide all data, assumptions and calculations relied upon. Provide the source of and basis for all data and assumptions employed. Include all studies, reports and planning documents from which data, estimates or assumptions were drawn and support for how the data or assumptions were used in developing the projections or estimates. Provide and explain all supporting work-papers.
5. The term "document" is used in its broadest sense and includes, without limitation, writings, drawings, graphs, charts, photographs, phono-records, microfilm, microfiche, computer printouts, correspondence, handwritten notes, records or reports, bills, checks, articles from journals or other sources and other data compilations from which information can be obtained and all copies of such documents that bear notations or other markings that differentiate such copies from the original.

6. If any one of these requests is ambiguous, notify the Hearing Officer so that the request may be clarified prior to the preparation of a written response.
7. Please serve copies of the responses as follows: one (1) copy of the responses to Mary Cottrell, Secretary of the Department and on all parties; one (1) copy of the responses to Michael Killion, Hearing Officer; and (4) four copies of the responses to Andréas Thanos, Gas Division.

### **INFORMATION REQUESTS**

- DTE-2-1 Please refer to the Company's response to question DTE-1-2. When will a finalized version of the enterprise-wide credit risk policy be approved by the NiSource Risk Committee? When will a copy of the committee approved credit risk policy be available for Department review?
- DTE-2-2 Is it the Company's position that the **current** credit risk policy does not provide specific parameters for the qualification of counter-party suitability? If the **current** credit policy does provide specific parameters which qualify counter-party suitability, please provide a detailed copy of that policy.
- DTE-2-3 Please explain why the Company believes that this filing is complete absent of an existing credit risk policy?
- DTE-2-4 Please refer to the Company's responses to question DTE-1-3. Is it the Company's position that potential trading errors are an impossibility? If trading errors can happen, could those errors results in a decrease in profits, or a potential loss? If so, will the customers be responsible for sharing in the costs associated with errors?
- DTE-2-5 Will the Company expect to recover costs associated with structuring and maintaining the risk management program through Bay State's next base rate proceeding? Please list all costs associated with risk-management activities that the Company will expect to recover through base rates.
- DTE-2-6 Please explain why any costs associated with commodity portfolio management, including the use of derivatives, should be recovered through base rates?
- DTE-2-7 Please refer to DTE-1-3, the Company states "The substantial oversight and

audit controls described in Mr. DaFonte's testimony govern each trade and are designed to eliminate "trading errors". Is it the Company's position that there is no policy in place which specifically establishes a protocol for dealing with potential errors? Please describe what process will take place if trading errors occur. In doing so, please identify who will absorb the cost.

- DTE-2-8 Please refer to the Company's response to DTE-1-4. The Company states "Currently, NiSource does not utilize specific risk-management software." If NYMEX trades are tracked using Microsoft Excel and OTC deals are tracked separately using EASy, how can management monitor the Company's overall risk position on a real time basis? Please provide a copy of any existing policy which establishes a protocol for monitoring trading to ensure excessive losses cannot occur.
- DTE-2-9 Will Bay State expect to recover costs associated with technical analysis software/hardware in a base rate proceeding?
- DTE-2-10 Please refer to the Company's response to DTE-1-6. The Company states "Using historical relationships, related OTC products, exchanged traded instruments, and mathematical models, Bay State can be reasonably assured that these OTC products will be marked correctly." Please provide a copy of the mathematical models that the Company refers to in this response. Be sure to include all formulas and relevant analysis that will be used in making this determination. Also, please define and list the "historical relationships" that the Company has referred to in this response.
- DTE-2-11 Does the Company have a policy in place that mandates OTC positions be marked to market daily? If not, please explain why the Company doesn't require staff to mark OTC products to market daily. If so, what procedures are in place which illustrate and report the net effects of daily market fluctuations?
- DTE-2-12 Is it the Company's position that Bay State can achieve overall lower prices than the industry recognized benchmarks referred to in this proposal?
- DTE-2-13 The New York Mercantile Exchange (Glossary of Terms publication 12/98) defines "Speculator" as "A trader who hopes to profit from the specific directional price move of a futures or options contract, or commodity." If the GCIM proposal is approved, would Bay State be considered a "speculator" based on this definition?
- DTE-2-14 The Oxford Dictionary of Economics by John Black, Oxford University Press,

1997, defines “speculation” as “Economic activity aimed at profiting from expected changes in the prices of goods, assets, or currencies. In a world of uncertainty, most transactions are capable of being interpreted as speculative, but the term speculation is reserved for transactions where expected capital gains provide a major motive.” Would Bay State be engaged in “speculation” based on this definition?

- DTE-2-15 Please refer to the Company’s response to DTE-1-10. The Company asserts “Bay State is seeking the Departments approval of its GCIM prior to implementing the more active portfolio management strategies that would enable a comparative trading analysis.” Is it the Company’s position that a trading analysis which includes historical data and actual references, to determine the probability that Bay State can out-perform the market, has not been done?
- DTE-2-16 Does the Company have any evidence that would suggest Bay State can achieve gas prices below the benchmarks that are set forth in the GCIM proposal? Is the Company speculating that this goal is obtainable?
- DTE-2-17 Is technical analysis widely used by industry experts as an aid to predicting future price levels?
- DTE-2-18 Please refer to the Company’s response to DTE-1-21. The Company has indicated that NiSource will not classify the operations that take place under the management of Bay State to be a “trading organization”. Are there less explicit limitations to financial trading activities as a result of not being classified as a “trading organization”?
- DTE-2-19 If Bay State is not classified as a “trading organization”, will Bay State be exempt from any aspect of the NiSource risk management policy? If so, please clearly identify any possible exemptions.
- DTE-2-20 Please provide a detailed organization chart of NiSource, Inc. Financial Trading Group.
- DTE-2-21 Please refer to the Company’s response to DTE-1-26. Please provide the specific @ENERGY/Basic and Advanced and @ENERGY/Swing models that will be used in structured transaction involving the management of Bay State’s portfolio. Will these models significantly aid the Company in out-performing the market? Would the Company be able to administer profitable trading strategies without using these models? Please comment on the significance of these models in making this proposal a long term success.

D.T.E. 01-81  
 Second Set of Information Requests  
 January 7, 2002

DTE-2-22 Please refer to the Company's GCIM proposal, M.D.T.E. No. 3, Sheet No. 16. The proposed tariff stipulates "The GCIM Cost Differential shall equal the difference between the Benchmark Purchase price less the Actual Purchase Price, which is then multiplied by the purchase volumes." Are the proposed sharing mechanism percentages based on this differential?

DTE- 2-23 Please refer to the following table that was created based on the Company's sharing model, as set forth in the proposed tariff, and two arbitrary prices:

**Purchase Price: \$10.00/Mmbtu      Published Index Price: \$2.00/Mmbtu**

<u>Benchmark Purchase Price</u>	<u>Customer Share</u>	<u>Bay State Share</u>
<u>Less Actual Purchase Price</u>		
Apply the first 5% to	(50% of \$0.40) <b>\$0.20</b>	(50% of \$0.40) <b>\$0.20</b>
the Benchmark less the Actual Purchase Price (\$10.00- \$2.00 = \$8.00) which equals \$8.00 * .05= <b>\$0.40</b>		
Apply second 5% to the	(25% of \$0.38) <b>\$0.095</b>	(75% of \$0.38) <b>\$0.285</b>
Benchmark less Actual Purchase Price (\$8.00) which equals \$8.00 - (\$8.00 * .05) = \$7.60 \$7.60 * .05 = <b>\$0.38</b>		
Above 10%	<b>\$0.00</b>	<b>\$7.220</b>
Total shared difference between Actual and Benchmark	(\$0.095 + \$0.20) = <b>\$0.295</b>	(\$0.20 + \$0.38+ \$7.22) = <b>\$7.705</b>

Company Share of difference between Benchmark and Actual = \$7.705  
 Customer Share of difference between Benchmark and Actual = \$0.295  
 Total difference between Benchmark and Actual (\$7.705 + \$0.295) = \$8.00

Customers price equals Benchmark plus the shared difference (\$2.00+ \$0.295) = **\$2.295**

Company price equals Benchmark plus the shared difference ( $\$2.00 + \$7.705$ ) = **\$9.705**  
*\* note: based on these calculations the customer pays \$0.295 more than the benchmark (representing their share of the loss), and the Company pays \$7.705 more than Benchmark (representing the Company's portion of the loss), which together equal \$8.00 (the total loss).*

Since the sharing model proposed in the tariff clearly stipulates that the GCIM cost differential "shall equal the difference between the Benchmark Purchase Price less the Actual Purchase price", and that "The Cost Differentials, positive or negative, shall be shared between the customer and the Company", please explain why the Departments example (above) is incorrect. Please provide a detailed account of **why the proposed tariff can not be interpreted as in the above mentioned example.**

DTE-2-24 Please refer to the Company's response to DTE-1-13 of the Department's first set of information requests. If "The GCIM Cost Differential shall equal the difference between the Benchmark Purchase Price less the Actual Purchase Price", and the tariff stipulates "The Gas Cost Differential, positive or negative, shall be shared between the customers and the Company as follows:

Benchmark Purchase Price Less		
<u>Actual Purchase Price</u>	<u>Customer Share</u>	<u>Bay State Share</u>
0-5%	50%	50%
5-10%	25%	75%
> 10%	0%	100%

Why in the example illustrated in Bay State's response to DTE-1-13 did the Company apply the 5% and 10% levels to the Benchmark price as opposed to applying the 5% and 10% levels to the difference between the Benchmark Purchase Price and the Actual Purchase Price as stipulated in the proposed tariff?

DTE-2-25 Please refer to the Company's response to DTE-1-27. Is it the Company's position that position and loss limits applicable to the trading of Bay State's portfolio are not yet finalized? If a policy regarding position and loss limits has been finalized, please provide a copy.

DTE-2-26 Please explain why the Company believes that the GCIM filing is complete without finalized position and loss limit specifications.

DTE-2-27 Please refer to the Company's response to DTE-1-25. The Company states "Bay State is in the process of developing an initial risk management policy and

procedures manual". Is it the Company's position that Bay State, as a business unit, does not **currently** have a risk management policy specific to the trading of Bay State's portfolio?

- DTE-2-28 Please refer to the Company's response to DTE-1-25. Please explain why the Company believes that the GCIM filing is complete without a finalized risk management and procedures manual?
- DTE-2-29 Please refer to exhibit FCD-5, page 9 of the NiSource Risk Management Policy. The policy stipulates "Simulation will be performed by each Business Unit's risk management function and by CRM. The results will be reviewed periodically by the Risk Committee to determine if established limits are appropriate for existing business conditions and to evaluate how trading portfolios would perform under stress conditions." Is it the Company's position that the above mentioned "stress simulations" have not been performed?
- DTE-2-30 Please explain why the Company believes that the GCIM filing is complete absent the results of the "stress simulations" referred to in exhibit FCD-5, page 9, of the NiSource Risk Management Policy ?
- DTE-2-31 Please provide a flow chart illustrating the internal and external flow of all documents relating to the trading of Bay State's portfolio. If the documents are disseminated to multiple groups in and between the companies, please indicate the name of each department/group that receives a copy of each document and communication.
- DTE-2-32 Please explain the coordination procedures that will be utilized to modify planned natural gas volumes required by Bay State within a normal planning period and the actions that the financial planning group may take in regard to those changes.
- DTE-2-33 What is the amount of surety bonding on each financial trading group employee that would be anticipated to come into contact with or participate in the conduct of any Bay State related portfolio management.
- DTE-2-34 Please provide a copy of the surety bonds currently being used by NiSource, Inc. for employees involved in trading activity.
- DTE-2-35 Will surety Bonds be arranged on behalf of Bay State if NiSource, Inc. conducts financial trading in the name of or on behalf of NiSource, Inc.?

D.T.E. 01-81

Second Set of Information Requests

January 7, 2002